

# Unlocking the Potential of the Financial Intermediary System in Development Policy: A Focus on Regional Development

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## Abstract

The purpose of this study is to shed light on the possibilities of higher-level development policy involvement of the financial intermediary institutional system, with particular regard to regional development. The investigation was primarily based on the analysis of the Hungarian financial intermediary system of refundable subsidies from the European Union that operated from 2007 through 2013. The reason for this is that, in terms of the diversity of the institutional system, both concerning the preceding and the 2014-2020 development cycle, this period had the highest diversity of institutions mediating subsidies, which plays a crucial role in the development of solutions that are more precisely suited to the financing needs of the final beneficiaries. After reviewing the available literature and development policy documents, I applied a research method based on a Delphi analysis. The investigation revealed a new finding: the market experience of the institutions' experts was the key factor in the successful placement of intermediary institutions' resources. This aspect had not been previously highlighted in evaluations or literature findings. In addition, the research pointed out, among other things, that for more optimal use of financial instruments for cohesion purposes, an integrated policy mix should be created at a higher level, including primarily the social and financial sectors, as well as the territorial development policy. All this would enable the introduction of combined support products at the implementation level, linking financial instruments with other non-financial types of support. For example, loan or guarantee products could be supplemented with consultancy, education, or mentoring support (especially concerning management, organization development, and strategic planning).

**Keywords:** development policy, financial intermediation, European Union, sustainability

**JEL codes:** O20, R51, Q01

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## The role of financial intermediation in economic growth and the formation of regional disparities

From a national economic perspective, supporting micro, small, and medium-sized enterprises, with particular emphasis on startups, and strengthening their viability in the early stages, represents a significant interest. The state plays a role in supporting this by setting targeted sectoral and resource frameworks, while the financial intermediation system also exerts a significant influence. The banking system fundamentally exerts a procyclical effect on economic processes, and the depth of financial intermediation and its proper functionality tailored to economic needs also independently stimulate economic growth (Schumpeter, 1980; King & Levine, 1993; Mérő, 2003; Kay, 2015). In a recent study examining the effects of financial intermediation on economic growth in Turkey (Yakubu et al., 2021), researchers also drew attention to the fact that it continues to significantly influence economic growth in both the short and long term, but positive effects are detectable only in the short term (confirming the supply-driven hypothesis). Additionally, the authors highlight that, while financial openness (primarily including financial literacy) has a significant and positive long-term effect on economic growth, gross fixed capital formation (as a measure of domestic investment) only plays a short-term role in economic growth in Turkey.

Understanding the relationships between financial intermediation and economic growth plays a significant role in ensuring that development policies operate with the most effective results aligned with the above interests. Serving economic development, Kay (2015) identifies four fundamental functions for the financial intermediary system, encompassing both banking and capital market intermediation. The aim of institutions conducting financial intermediation with these functions, besides being economically viable themselves and producing measurable financial values, is to serve the needs of the real economy as accurately as possible with their services and products. These four functions include operating payment and settlement systems (1) to connect economic actors, then (2) linking investors, depositors, and borrowers through denominational transformation, transforming shorter-term investments into longer-term loans (maturity transformation), (3) reallocating financial resources of economic actors across life stages, and (4) risk management and risk smoothing (asset transformation). Drawing on Hungarian literature (primarily based on Merton & Bodie, 1995, as cited in Mérő, 2003; and Mérő & Erdős, 2010), two additional supplements include information processing and services (5) and overcoming incentive problems (6).

Financial institutions are limited in their ability to meet the needs of the real economy in terms of risk-smoothing functions (4) and overcoming incentive problems (6). The improper operation of these functions causes imperfections in information dissemination in financial markets, which leads to market failures in economic financing. Vito Tanzi, a development economics professor at the University of Cambridge, former head of the International Monetary Fund, and former Minister of Economy of Italy, has drawn attention to the fact that market

self-correction is erroneous (Tanzi, 2011, as cited in Farkas, 2017a). Following the 2008 crisis, there has been increasing emphasis on the need for state intervention in managing market failures along the lines of evolving theories of the state's role (Farkas, 2017a; Farkas 2017b).

Furthermore, the proper functioning of financial intermediation processes and institutions (through connecting stakeholders involved in developments) also has a significant impact on economic development interpreted at the regional level, and thus on the formation of regional disparities and inequalities in development. The uneven spatial distribution of financial flows at a given development level of the financial system can result in significant regional disparities (Porteous, 1995; Mazucca, 1999; Dow, 1999; Alessandrini & Zazzaro, 1999, as cited in Gál & Burger, 2011). The regional disparities observed in the functioning of financial intermediation manifest from the perspective of economic actors in access to financing and the degree of informational asymmetry within the institutional system. The typology of regional disparities in financial flows is dominated by the centre-periphery difference, with the characteristics of urban networks showing a close correlation with the spatial and regional structure of the banking system, as well as the spread of financial innovations (Gál, 2014). However, general regional disparities in development alone are triggers for capital movements (Gál, 2015), meaning that the financial intermediary system not only has a procyclical effect on economic processes but also amplifies inequalities in regional development. The primary reason for this is that the centralized corporate governance structure of institutions dominating bank-based financial intermediation, coupled with the low autonomy of branches, does not support the accessibility of local information or its integration into financing decisions. Such locally acquired knowledge, assessable through personal and social connections, includes entrepreneurial readiness, financial literacy, motivations, client personality traits, or payment discipline. However, in assessing credit risk for micro and small businesses, these factors are of critical importance (Banai et al., 2016). The emergence of informational asymmetry encoded in the corporate governance and decision preparation system of financial intermediary institutions may result in generally higher risk classifications for peripheral areas distant from the centre and higher transactional, informational, and monitoring costs, as well as administrative burdens for branches there. Therefore, in the long term, *effective counterbalancing of regional disparities in financial transfers can only be achieved through institutional and managerial transformation of the intermediary system* (Gál & Burger, 2011), a consideration that must be prominently taken into account at the institutional level executing development policies (Farkas, 2018b).

## 1. Brief overview of repayable EU supports and their financial intermediation mechanisms

In implementing the cohesion policy of the European Union, the toolbox utilized by the European Commission (hereinafter: the Commission) expanded with the introduction of support instruments managing repayable resources, prompted by the conclusions of the Commission's Fifth Cohesion Report published in 2010. Although these instruments had been presented in the Commission's toolbox since the mid-1990s, their utilization had been limited to very narrow frameworks. According to the report's recommendations, in development areas where activities supported by cohesion policy funds generate income, it is necessary to introduce financial instruments provided in the form of credit, capital, guarantees, and combinations of these products with non-repayable funds. Such areas of support include enterprise development, support for business activities, interventions related to infrastructure development (with particular emphasis on transportation, environmental protection, and energy efficiency), as well as investments in research and development and intellectual property rights. The fundamental concept of the financial instruments recommended by the Commission is that repayable support should only be applicable to entities unable to access funding under market conditions.

Hungary, on an experimental basis, began employing these instruments during the utilization of pre-accession funds from the European Union (PHARE) in the 1990s. In terms of objectives, these supports, totalling 1.15 million ECU, focused on microfinancing (Kovács, 2010). Between 2004 and 2006 EU support policy in Hungary did not include financial instruments. However, during the 2007-2013 development cycle, they were reintroduced, and at a significantly larger scale than before (with 820 million EUR within the Economic Development Operational Program's Financial Instruments priority axis and a total of 48 million EUR within the 7 Regional Operational Programs). Utilization of these resources during the 2007-2013 cycle took place within the framework of the Joint European Resources for Micro- to Medium-sized Enterprises Program (JEREMIE program). In Hungary, the Jeremie program primarily involved the application of three main product types: credit, guarantees and venture capital, supplemented by two combined products offering credit and non-repayable support, as well as credit, guarantees and non-repayable support.

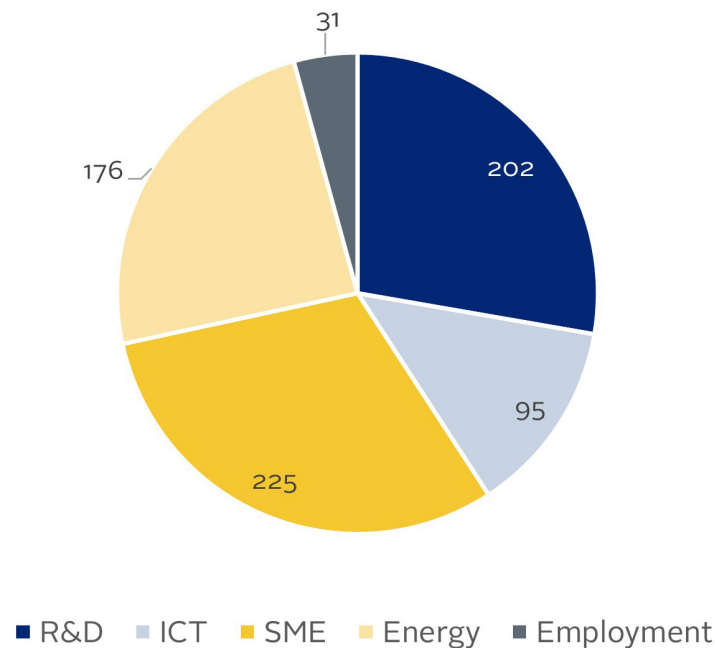
The main objective of the Jeremie program was to support enterprise development through microfinancing. However, these microcredit products represented a micro-character only in the first half of the development cycle, and by the end of the period, the target groups expanded to medium-sized enterprises, with the loan amount reaching 200 million HUF. One of the most important lessons from the evaluations of financial instruments during the 2007-2013 development cycle was that the utilization of these preferential financial products ultimately did not correspond significantly to the target groups originally intended by the development policy (KPMG, 2013). However, the end-of-cycle impact analysis (KPMG, 2017) did

not address this analytical perspective. Meanwhile, the credit supply for domestic SMEs still required development during this period; according to data published by the Hungarian Development Bank (MFB) in 2016, there was a prevailing financing gap of 570 billion HUF in the Hungarian economy (MFB, 2016a).

In terms of the funding framework for repayable supports, for the 2014-2020 period, the allocation of financial instruments increased nearly threefold (2.4 billion EUR within the Economic Development and Innovation Operational Program's dedicated priority axis, equivalent to nearly 730 billion HUF in 2014). Concurrently, the scope of objectives served by repayable resources expanded. Repayable resources serving economic development for the period 2014-2020 were divided into five policy program objectives, which are as follows:

1. Strengthening research, technological development, and innovation (R&D).
2. Improving access to and the quality of information and communication technologies (ICT).
3. Enhancing the competitiveness of small and medium-sized enterprises, the agricultural, fisheries, and aquaculture sectors (SMEs).
4. Supporting the transition towards a low-carbon economy in all sectors (Energy).
5. Promoting sustainable and quality employment and supporting worker mobility (Employment).

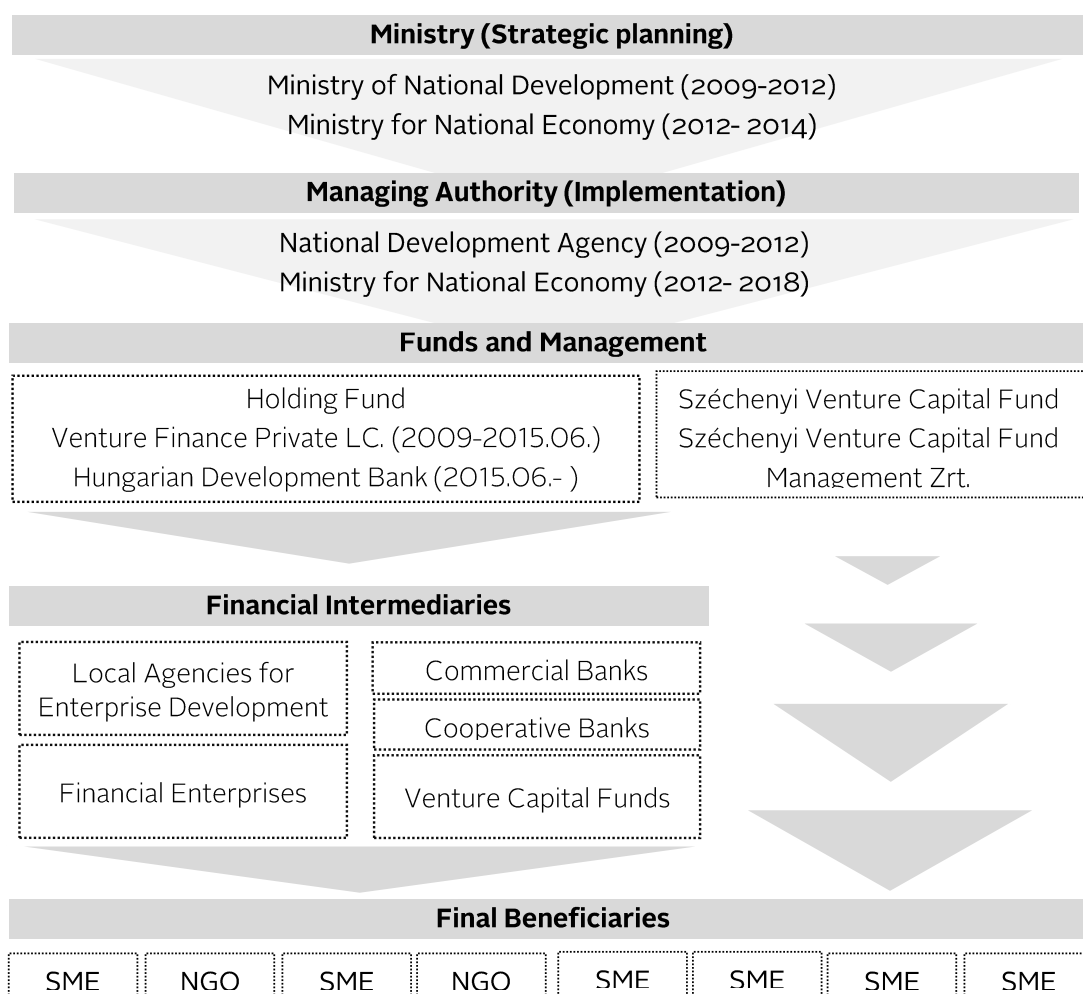
Figure 1: Development objectives supported by the financial instruments priority axis of the Hungarian Economic Development and Innovation Operational Program (GINOP) (EU thematic objectives, billion HUF)



Source: Edited by the author based on Ministry for National Economy (n.d.)

Regarding the intermediary system, during the 2007-2013 period, a diverse institutional system transferred these repayable subsidies to businesses as final beneficiaries. Among the financial intermediaries, local enterprise development agencies, credit cooperatives, commercial banks, as well as venture capital funds and other product-specialized financial enterprises were all present. During the 2007-2013 period, there was generally a strong specialization observed among the types of institutions in terms of the deployment of financial products. Examining financial intermediaries based on the number of transactions for products (MFB, 2016b), it is evident that working capital loans and guarantee products were predominantly provided by banks, microloans were primarily intermediated by financial enterprises and enterprise development agencies, while for microloans combining with credit and non-repayable supports, financial enterprises dominated. Venture capital support was exclusively channelled to the final beneficiaries through venture capital funds.

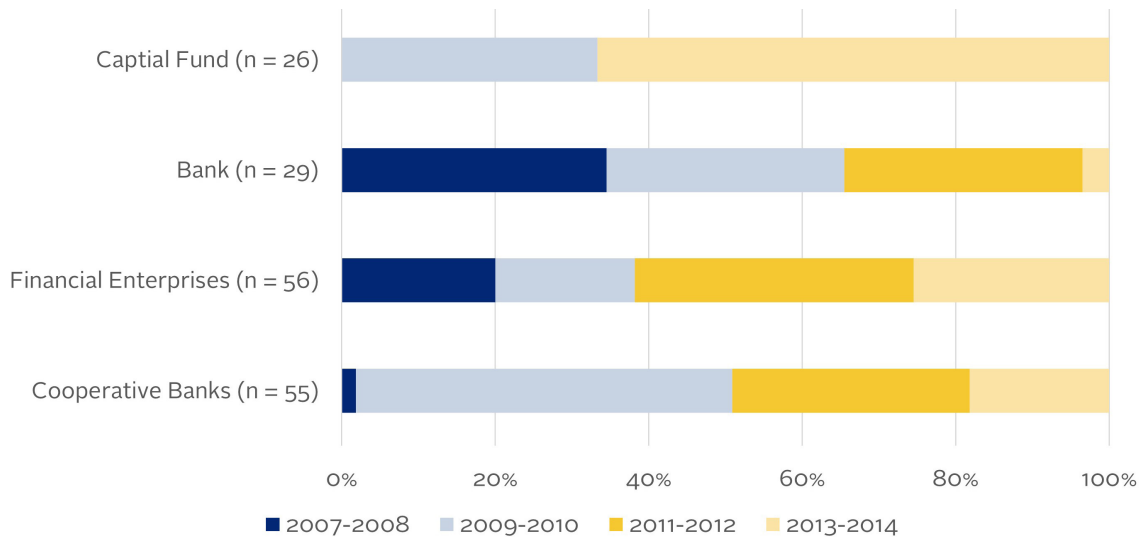
Figure 2: The institutional system of implementing financial instruments in Hungary in the 2007-2013 EU development period



Source: Edited by the author based on Farkas (2018a)

In terms of the number of financial intermediaries, during the 2007-2013 period (plus a 2-year grace period related to the utilization of resources from the previous period), until the end of 2015, a total of 415 intermediary contracts were concluded, and during the same period, the number of intermediary institutions was 165 (MFB, 2016b). Examining the activity of financial intermediaries reveals that the most dominant players were financial enterprises and local enterprise development agencies (combined and referred to as financial enterprises in Figure 4).

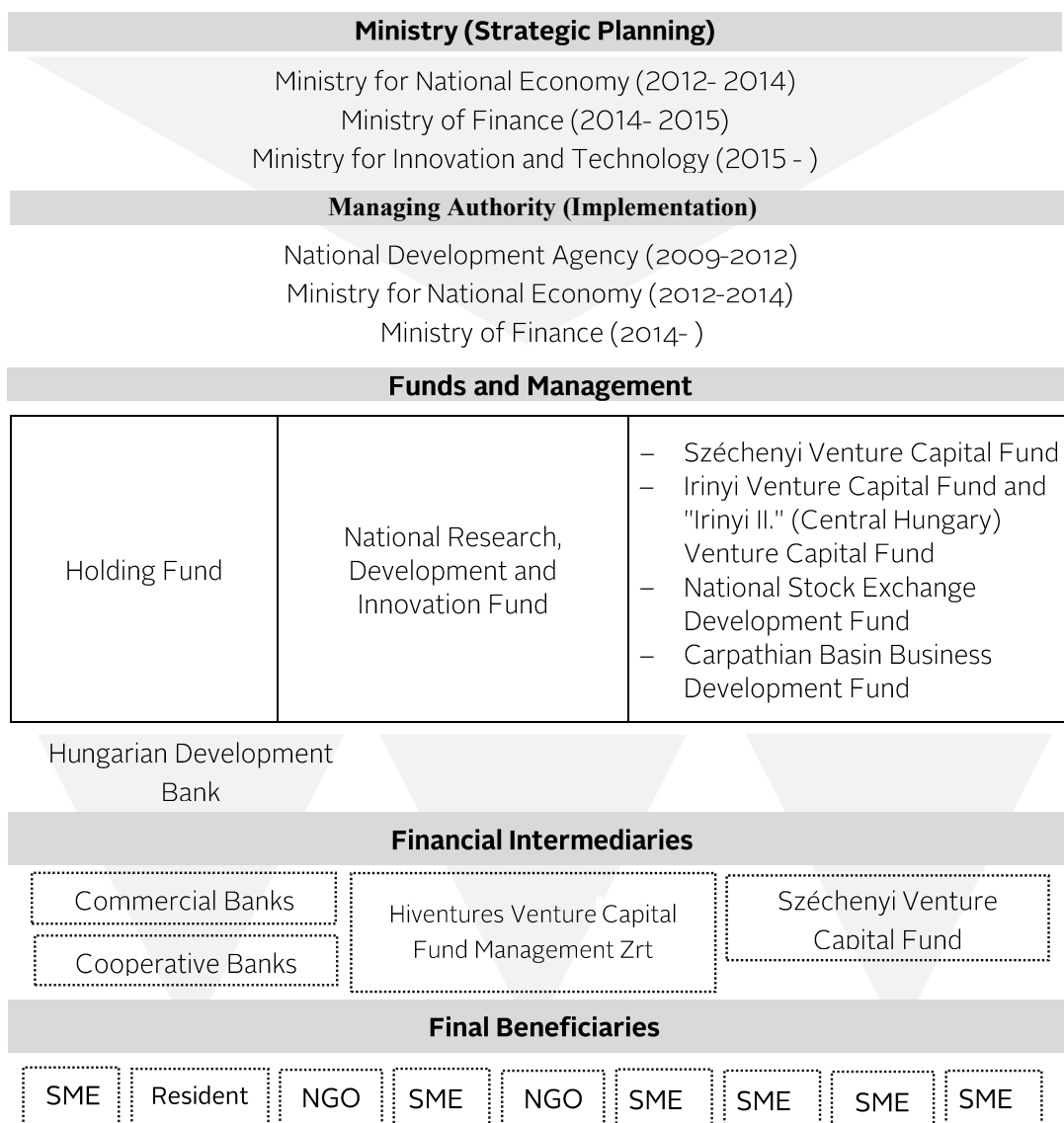
**Figure 3: Distribution of financial intermediaries based on type of institution and date of joining, 2007-2014 (percentage of those who joined up to 2015 from a given type of institution)**



Source: Edited by the author based on MFB (2016b)

Subsequently, the model of intermediating financial instruments underwent significant transformation compared to the institutional setup of the 2007-2013 cycle. In the 2014-2020 development cycle, the diverse objectives of financial instruments (Figure 1) had to be implemented within a more centralized institutional structure (Figure 4). The backdrop to these changes primarily stemmed from the much more detailed regulations of the European Commission governing the financial instruments of the 2014-2020 programming period compared to the 2007-2013 period, which, however, were not in line with the previous practices of the member states (Nyikos, 2017a).

**Figure 4: The institutional system for the implementation of financial instruments in Hungary in the 2014-2020 EU development period**



Source: Edited by the author based on Farkas (2018a)

In terms of the structure of the financial instruments intermediation system for the 2014-2020 period, the Hungarian Development Bank (MFB), as the holding fund managing the repayable funds, opted for an agency-type intermediary model for credit products, entering into direct contracts with the final beneficiaries. To facilitate the intermediation of credit products, under the supervision of the Hungarian Development Bank (MFB), by the end of 2017, 642 credit and combined product intermediary “MFB points” were actively operating in 400 settlements nationwide (the first MFB points started operating in May 2016). However, these points were predominantly located in more competitive, densely populated areas with higher growth potentials, and were the first to be established here. Among the disadvantaged settlements (a total of 1230 municipalities based on the then-applicable Government Decree No. 105/2015 [IV. 23.] on the classification of the less developed settlements and the classification criteria), only 45 MFB points

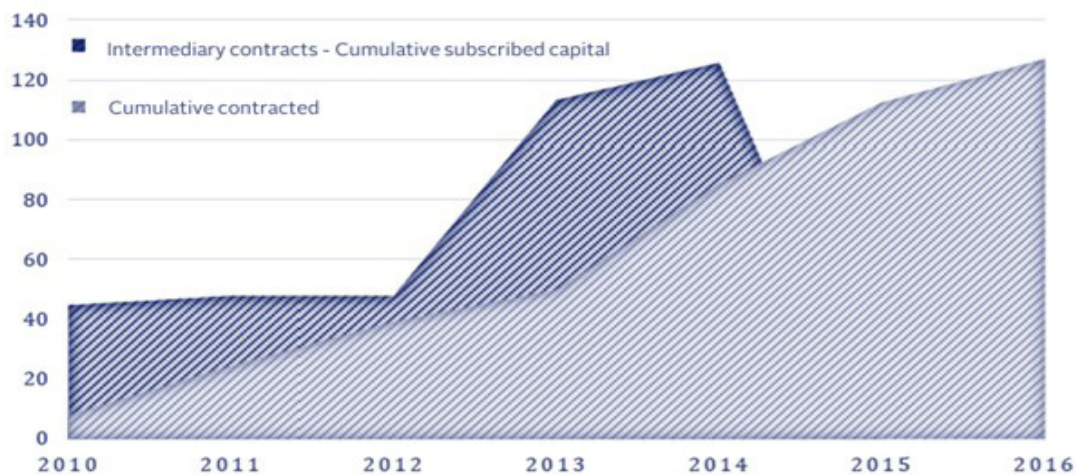


were available. With the gradual expansion of the network, the number of access points increased primarily in cities with county rights, while accessing these supports from disadvantaged areas became more difficult. According to calculations by the Development Bank, the MFB points network was capable of directly reaching at least 83% of enterprises and 72% of the population territorially, indicating that the network of intermediation points aligns significantly with the concentration areas of domestic businesses. A total of 3 financial institutions, through their designated branches, performed the intermediation tasks accordingly. (MKB Bank Nyrt. [including the former Budapest Bank Zrt. and its branches], OTP Bank Nyrt., Takarékbank Zrt.) With their presence in 401 settlements, the MFB points provided access to 71.67% of Hungary's population, covering 74.5% of registered economic organizations at their inception (KSH, 2016b).

Although numerically the number and distribution of MFB points showed high coverage, there are risks in reaching the intended target groups and regions. Furthermore, regarding the amount of loans available, the objective of micro-lending seems to be less realized in the 2014-2020 development cycle. Based on data on disbursements, the average amount of loans disbursed increased nearly sixfold (!) compared to the 2007-2013 cycle (Nyikos, 2017b).

In terms of the institutional system, the MFB also plays a role in deploying venture capital through the Hiventures Venture Capital Fund Manager framework. (Hiventures was established in 2017 through the transformation and renaming of the Corvinus Venture Capital Fund Ltd., which was part of the MFB Group. The Corvinus Venture Capital Fund Ltd. was founded in 2005, and its predecessor was the Regional Venture Capital Fund, registered as early as 1999.) With this step, the government placed its venture capital support in the research and development sector through a state-owned capital fund, marking a significant shift from the institutional practices which operated in the 2007-2013 period (Figure 4). In the background of this, in addition to changes in EU regulations, there was also the experience that the Hungarian practice and institutional model of venture capital funds, operating with 30% private funds assigned to 70% EU funds, did not prove to be effective overall in the period 2007-2013. These resources could only be deployed with considerable delay and a costly intermediary institutional system (Figure 5). The failure was attributed by both stakeholders in the venture capital sector (e.g., Zsembery in HVCA, 2015) and experts in the academic sphere (e.g., Karsai, 2015a; Karsai, 2015b) to the excessive number of venture capital funds, their inadequate expertise and management capacity, and their investments carried out with low-risk appetite. Additionally, there was an oversupply of venture capital in a small and concentrated market when the programs were launched (MNB, 2015).

Figure 5: Release rate of capital resources of the Jeremie program (Billion HUF)



Source: Századvég Gazdaságkutató (2016, p. 49)

The new model resulted in an overall faster procedure, with funds being quickly allocated and disbursed accordingly (applications for the 2014-2020 financial instruments were fully announced by March 31, 2017). The operation of the financial intermediary system was associated with low operating costs (Nyikos, 2017; Nyikos, 2016b), especially concerning the deployment of venture capital. The deployment of credit products through MFB points was able to cover a high proportion of businesses territorially and statistically. Moreover, the newly introduced electronic administration option for financial products planned to launch an additional, user-friendly withdrawal exercise according to the originally intended goals.

However, the operation of this intermediary system did not reflect the local priorities and objectives of development policy, and the banking and business development capacities in the civil and private sectors (which developed during the 2007-2013 period) were not utilized. The evaluation of the financial instruments for the 2014-2020 period highlights that “the new institutional system, despite a larger number of customer access points, was less successful in accessing micro-enterprises, thus, addressing this segment requires specific banking incentives and methods” (Prime Minister’s Office, 2021, p. 2).

The institutional system of the 2014-2020 period for repayable funds faced (at least) two key challenges. These were achieving a balance between reaching targeted groups of development policy and the cost-effectiveness of the intermediary system (1), and ensuring the cohesion policy effects of financial instruments, particularly concerning social progress, territorial cohesion, and local economic development (2).

Considering the central role of financial intermediation in economic growth and social progress (Mérő, 2003; Imreh et al., 2007), and the recognition that the effective utilization of EU funds depends, among other things, on the institutional environment of interventions (Batra & Mahmood 2003, and Nyikos & Talaga, 2014, as cited in Nyikos et al., 2020), and taking into account both

the revolving nature of financial instruments and the possibility of their redeployment by member states, which can lead to more efficient enterprise development effects in certain cases (Nyikos et al. 2020), the institutions involved in intermediation become significant actors in development policy. These actors include financial institutions involved in the deployment of funds. However, concerning the Central and Eastern European region (Czech Republic, Hungary, Poland, Slovakia, and Slovenia), analysing the period from 2004 to 2016, Bethlendi and MÉRŐ (2020) made an important observation that the extent of banking financial intermediation stalled in Hungary and Slovenia by 2010 after its expansion from 2004 and capital market development stagnated. Also, in Hungary, there is a shadow banking system consisting of lenders, leasing and factoring companies, which, although represents a small proportion, is on the rise. Financial enterprises and enterprise development agencies specializing in microloans and combined microloans belong to the latter category. Therefore, analysing their performance in this region becomes increasingly necessary. However, reinforcing the findings of Bethlendi and MÉRŐ (2020), during this research, I encountered the limited nature (or absence) of data concerning the intermediary system of financial instruments financed by EU funds for the 2007-2013 period, especially regarding data below the regional level (county, district, or local levels).

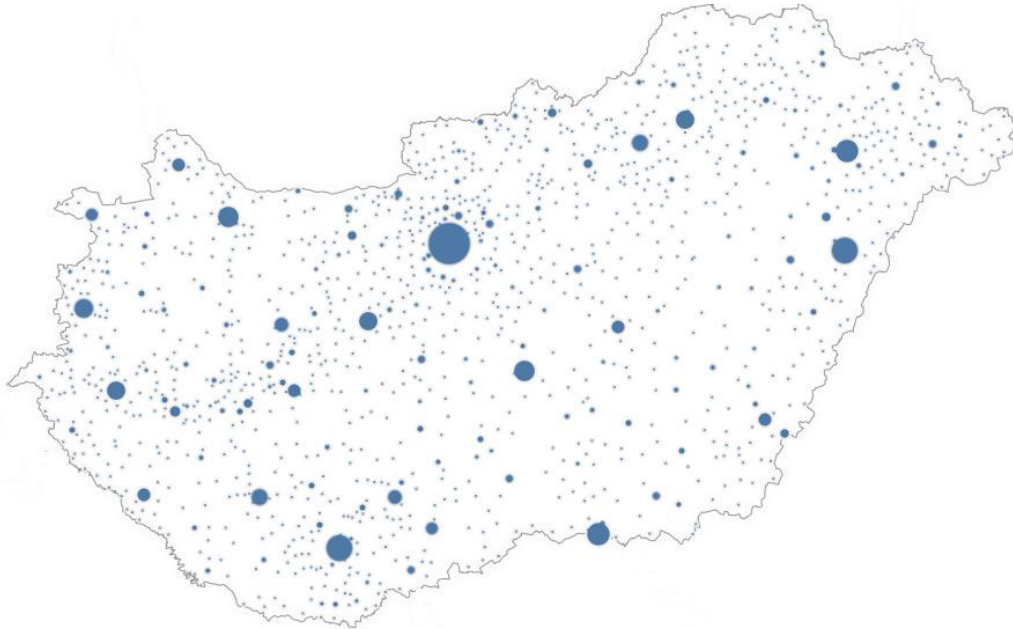
## **2. Territorial characteristics of the use of financial instruments of the 2007–2013 EU development period in Hungary (Farkas, 2018b)**

Due to the limited access to territorial data concerning Hungary's development-oriented financial instruments for the 2007-2013 period, this analysis primarily relies on secondary sources, following the ex-post reports prepared in accordance with the standards of the European Commission. However, the absence of territorial data in the utilization of financial instruments is not unique to Hungary. The ESPON (2019) report highlights for almost all member states regarding the 2007-2013 period, that sub-regional territorial data are not available concerning the utilization of cohesion and structural funds' financial instruments. Territorial information regarding the utilization of financial instruments for the 2007-2013 development cycle can be accessed for Hungary based on the mid-term central evaluation (KPMG, 2013) and the final evaluation following the cycle (Századvég, 2016). Therefore, this section of the article primarily relies on a review of the latter documents and the related literature.

The range of enterprises reached by financial instruments during the 2007-2013 cycle is characterized by strong territorial concentration. In Hungary, urban areas dominated the utilization of these instruments. The majority of beneficiaries are associated with Budapest and cities with county rights. Regarding the sectoral classification of beneficiaries, the highest territorial concentration is observed among companies operating in the information and communication sector, with 60% of the financial instruments utilized in the Central Hungary region (Századvég, 2016).

The utilization of financial instruments with EU support, in terms of territorial characteristics, aligned with the general territorial patterns of capital flows and financial innovations (Gál, 2014), highlighting significant urban-rural inequalities.

**Figure 6: Territorial distribution of businesses reached with credit and guarantee products in the 2007-2013 EU development period**



Source: Századvég Gazdaságkutató (2016)

In the deployment of capital products, urban-rural disparities exert even stronger dominance, with Budapest's influence standing out prominently in the details. While the competitiveness regions were largely excluded from various constructions or received significantly lower resource allocations, in the case of urban areas located in the nearest convergence regions, as evidenced by the Századvég evaluation in 2016, beneficiaries often comprised businesses headquartered in the capital but operating activities in rural areas.

Analyzing the distribution of investments by implementation location, the regions of Northern Hungary and Central Transdanubia emerge prominently. These two regions collectively received more capital support than the remaining four Hungarian convergence regions combined (Századvég, 2016). The level of development of these two regions differs markedly (Eurostat, 2018), and the gap between them is increasing. In 2009 the gross domestic product (GDP) of the North Hungarian region at current market prices was EUR 6955 million, and that of the Central Transdanubia region was EUR 8637 million, by 2016, their size was EUR 8832 million for the North Hungarian region and the Central Transdanubian region rose to EUR 11631 million. Based on the closing evaluation of the period, it became apparent that there was a strong correlation between capital investments, the number of innovative businesses, and the geographical distribution of capital support. However, inferred from the number of research institutions, it is evident that Central Transdanubia and North Hungary are overrepresented in terms of ac-

quired resources. This may be attributed to the ease of accessibility of urban areas in these designated regions from Budapest, particularly considering the territories of Székesfehérvár, Veszprém and Eger.

The reason for the extremely strong ‘Budapest effect’ in the placement of capital products may be partly the Budapest headquarters of the majority of capital funds and the particularly strong concentration of research, development and innovation activities in the capital. Budapest concentrated 56% of researchers and developers and 44% of research and development sites in 2011 (KSH, 2016a), while in the same year, it accounted for 37% of GDP at market prices (KSH, 2018a) and 17% of the population (KSH, 2018b).

In the deployment of financial products during the 2007-2013 period, strong specialization among institution types is evident, facilitated by the diversity of financial institutions participating in the program. Furthermore, specialization among institutions is also observable in the case of credit cooperatives, from a territorial perspective. According to the ex-ante study by Századvég (Századvég, 2016), during the designated period, two-thirds of credit cooperatives participating in the program were located in settlements with populations below 5,000.

### **3. Objectives and methodology of the study**

Given the lack of detailed territorial breakdown beyond regional-level data in the majority of member states utilizing repayable financial instruments of the EU, a qualitative approach was adopted in the data collection methodology. Qualitative data collection and analysis were conducted using the Delphi method, along with the development of a “hybrid”, enhanced version thereof.

The method, increasingly widespread since the 1950s, has been employed across various policy domains and scientific fields, shifting from its primary application in technological forecasting to gaining traction in the education and public health sectors. Apart from forecasting, it effectively assists decision-makers in setting priorities related to progress and shaping various policies.

The study involves an expert group that does not meet in person, but gains knowledge and responds to the opinions of other participants in the study through the mediation of researchers (thus, it is considered a unique, directed team communication method). The aim is to foster consensus among experts over as few as two rounds of questioning, leading to the formulation of statements that did not previously exist or were not identified.

Given the examination of the role of these instruments in territorial development, it became evident early on that both territorially and sectorally, a ‘multilevel perspective’ needed to be applied in selecting expert participants. Consequently, the involvement of experts responsible for the planning and implementation of repayable instruments and domestic territorial development policies was sought, alongside reaching out to interviewees active in the intermediary institutional framework (financial sector) at both local and central levels. The selection of interviewees also considered their longer-term perspective on Budapest and rural

processes, as well as their experience in one of the two thematic areas (repayable support, territorial development). Ultimately, the basis for the interview circle was provided by a contact initiative involving 44 experts, which resulted in the conducting of 20 interviews, based on willingness to participate (with an average duration of 60 minutes per interview).

The questions (14) posed in the first round of interviews ultimately revolved around two major research points: 1. What are the most important characteristics of a successful institutional framework mediating EU financial instruments, from the perspective of strengthening cohesion effects and promoting rural areas' convergence? 2. What changes and challenges does the institutional framework of the 2007-2013 and 2014-2020 cycles entail, particularly regarding reaching and promoting disadvantaged areas and target groups?

All interviewees were granted anonymity, and during the analysis, only their categorization according to the following respondent categories was taken into account: civil sector, financial sector (F), other private sector (O), and governmental and municipal sector - including experts from the European Commission - (G). Thus, in the lineup of first-round interviewees, 6 individuals represented the financial sector, 5 individuals represented the other private sector category (including consultants and experts engaged in analysis and evaluation activities of these instruments outside the public sector), and 9 individuals represented the governmental and municipal sector (including experts of the European Commission). Despite outreach efforts, no response was received from the civil sector, there was no willingness to participate in the research on their part.

Table 1: Classification of interviewees by sector

Code of respondents	Sector	Nr. of interviews
F1	Financial sector	6
F2		
F3		
F4		
F5		
F6		
O1	Other private sector	5
O2		
O3		
O4		
O5		

*Continuation of table 1.*

Code of respondents	Sector	Nr. of interviews
G1	Governmental and municipal sector	9
G2		
G3		
G4		
G5		
G6		
G7		
G8		
G9		
<b>Total number of interviews</b>		<b>20</b>

Source: Edited by the author

Following this, I formulated 22 statements based on the interviews (contained in Appendix 1), which formed the basis for the second round of questioning. In this regard, I asked the experts to evaluate these 22 statements on a Likert scale ranging from 0 to 10 on a questionnaire-like form, indicating the extent to which they agree or disagree with them. (Out of the 20 survey forms sent out, 13 were returned.) In the second round, the Likert-scale values received in response were utilized to determine expert consensus. For this purpose, I calculated the standard deviation, as well as highlighted the average, minimum, and maximum values for each statement. Additionally, I evaluated the scores for the statements separately according to respondent groups (again based on the standard deviation, average, minimum, and maximum values). In this second round, to assess the received opinions, I established the expected level of consensus, which, according to the literature, should be at least 70%.

**Table 2: Classification of the respondents of the returned questionnaires by sector**

Code of respondents	Sector	Nr. of respondents
F1	Financial sector	4
F2		
F3		
F4		
O1	Other private sector	4
O2		
O3		
O4		

*Continuation of table 2.*

Code of respondents	Sector	Nr. of respondents
G1	Governmental and municipal sector	5
G2		
G3		
G4		
G5		
Total number of returned questionnaires		13

Source: Edited by the author

## 4. Results

Regarding expert consensus, based on the results detailed below, 10 consensus statements were established among the respondents (working with a maximum standard deviation of 2.5), specifically for statements 1, 2, 4, 7, 8, 9, 10, 12, 14, and 20 (the list of statements is provided in Appendix 1, while the consensus statements and their significance according to respondent groups are summarized in Table 3).

Analysing the results by respondent groups revealed that among representatives of the governmental and municipal sectors in development policy, the highest consensus (in sequence) was achieved for statement 13, with equal consensus values for statements 4, 8, and 2. Within this category, respondents mostly agreed with statement 13 (with an average value of 8), suggesting that the state is capable of executing successful and profitable venture capital investments. After that, the second strongest consensus with a result of disagreement (with a value of 4) was reached within this group in favour of the fact that the 2007-2013 opinion was that financial instruments were more likely to help businesses in terms of liquidity (statement 4 of the survey form). The third strongest consensus, with an equal standard deviation value of 1.5, was achieved for statements 2 and 8. Statement 2 (financial instruments primarily assisted businesses in urban areas) also reached consensus among respondents in general, albeit with an uncertain opinion (average value of 5.4), yet respondents from the governmental and municipal sector particularly agreed with this statement (with a value of 7.4), showing higher consensus. Statement 8, regarding the development of the financial intermediary system and greater diversity in financial intermediary institutions and opportunities, received consensus both among respondents from the state sector and overall.

Among respondents from the financial sector, the highest consensus was observed for statements 10, 11, 1, and 2. Except for statement 11, these received consensus according to all respondents.



Within respondents from the financial sector, the strongest consensus was achieved for statement 10, where unanimous agreement (with a value of 8) was reached, indicating that the market experience of financial intermediaries was crucial for the successful deployment of refundable instruments during the 2007-2013 period. The second strongest consensus within this group was for statement 11, where similarly high agreement was reached (with an average value of 8.25), emphasizing the advantage of specialization in individual financial products for successful deployment. Statements 1 and 2 received the same level of consensus and opinion value with a value of 1.224 standard deviations and a 4, that is, rather disagree answer. Respondents from the financial sector did not agree with the statement that financial instruments primarily assisted businesses with headquarters in Budapest and branches in other regions (statement 1) or that financial instruments primarily assisted businesses located in urban areas (statement 2).

Among respondents from the other private sector, the strongest consensus was observed for statements 5, 4, and 3, and equally for statements 13 and 20. Among the general group of respondents, only the 4th received consensus, and the 20th statement with a standard deviation (limit) value of 2.5 was also just included. The strongest consensus was observed for statement 5, where respondents expressed uncertainty (with an average value of 5.75) regarding whether financial instruments (2007-2013) could serve as developmental investments in practice. The second strongest consensus within this group was for statement 4, where disagreement was expressed (with a value of 4), suggesting that financial instruments primarily helped businesses in terms of liquidity. Statement 3 also received disagreement (with an average value of 3), suggesting that financial instruments in the 2007-2013 period primarily led to the development of domestic SMEs. Statements 13 and 20 received equal consensus with vastly different opinion values. For statement 13, there was disagreement (with a value of 2.75) regarding the state's capability to execute successful and profitable venture capital investments, while for statement 20, there was a weak agreement (with a value of 6.25) among respondents from the other private sector. Based on agreement with statement 20 among the representatives of the other private sector, in order to deploy financial instruments in accordance with strategic development goals, an integrated policy mix should be created at a higher level between the social and financial sectors and regional development policy. For instance, loan or guarantee products could come with additional educational or mentoring support using innovative methods. This could include enhancing understanding of sustainable management, leadership, organizational development, and strategic planning. Such support might involve customized educational solutions or applications, like simulation-based training or virtual reality tools, which are typically expensive and may not be readily available to individual entrepreneurs or businesses.

Table 3: Statements obtained by expert consensus and their opinion value according to respondent groups (sectors)

Respondent group	Number of consensus statements* in the opinion survey form (the 4 strongest consensus per sector, the order number of the strongest consensus statement is listed at the top)	Opinion value (Between 1 and 4 disagree; 5 – unsure; 6-10 agree)	Notes
<b>Governmental and municipal sector</b>	13	8	It received consensus only among respondents from the public sector.
	4	4	A general statement that received consensus among all respondents.
	2	7.6	A general statement that received consensus among all respondents.
	8	6.4	A general statement that received consensus among all respondents.
<b>Other private sector</b>	5	5.75	It received consensus only among respondents from the other private sector.
	4	4	A general statement that received consensus among all respondents.
	3	3	It received consensus only among respondents from the other private sector.
	13 (consensus of the same strength as statement 20)	2.75	It received consensus only among respondents from the other private sector.
	20 (consensus of the same strength as statement 13)	6.25	A general statement that received consensus among all respondents.
<b>Financial sector</b>	10	8	A general statement that received consensus among all respondents.
	11	8.25	Only received consensus among respondents from the financial sector.
	1 (consensus of the same strength as statement 2)	4	A general statement that received consensus among all respondents.
	2 (consensus of the same strength as statement 1)	4	A general statement that received consensus among all respondents.

Source: Edited by the author

\*Note: the statements are numbered in Appendix 1

## Summary and conclusions

Based on the consensus statements and the preceding interviews, it has emerged that the geographical proximity of financial intermediaries, while facilitating, is not the most significant factor in the successful deployment of support. Instead, it is much more important to enable the target groups' access to resources. Characteristics to be developed in this regard include willingness to apply for financial solutions, financial literacy, knowledge of financial indicators, or agility. The study indicates that, concerning the deployment of resources (in terms of spending), the market experience of institution experts was primarily decisive, a factor which has not been highlighted in previous assessments or literature. This also complements the assertion by Gál & Burger (2011) that addressing regional inequalities in financial transfers and effectively counteracting them in the long term can only be achieved through institutional and governance reforms in the intermediary system. Additionally, it suggests that the 642 MFB points established during the 2014-2020 period, while demonstrating high territorial coverage for the population and businesses, could be operated with higher efficiency.

Furthermore, the research highlighted that during the 2007-2013 period, financial instruments primarily led to the development of the financial intermediary system and greater diversity in financial intermediary institutions and opportunities. However, from a territorial development perspective, this also meant less successful targeting of intended target groups of development policy (primarily micro, small, and medium-sized enterprises outside Budapest), as a significant portion of resources were concentrated in urban areas with one hour of road connectivity to Budapest, where financial intermediaries involved in resource deployment operated.

In examining the proposals for improving the financial intermediation system for repayable development resources, the research has shown that, in order to allocate financial instruments in line with strategic development objectives, a more integrated policy mix should be established at a higher level - including, in particular, the social and financial sector and territorial development policies. Additionally, to better reach the intended target groups of development policy, improved coordination among these policies is necessary. As a result of the study, an important lesson and suggestion for improving development policy is that an integrated policy mix at the central planning (state) level can be a step forward in enabling the financial intermediary system to better reach the originally intended target groups and objectives, at the level of the financial intermediary institutions involved in implementation, this integrated approach needs to be ensured and enforced in human capacities, through experts with extensive market experience. This aligns with Sárvári's (2022) article on green financial capacity development, which advocates strengthening local structures, utilizing regional knowledge more effectively in the financial sector, and developing a more integrated development policy to move towards sustainable economic development by promoting training of green finance experts and developing a green financial capacity building plan.

Additionally, another point emerges from the evaluation of interviews and surveys: representatives of the public sector perceive these processes significantly differently from those in the financial sector or other private sector representatives. This underscores the need for a more integrated approach to development policy, highlighting the necessity for higher-level partnership in examining and developing territorial development processes between the market sector (with particular emphasis on the financial sector) and representatives of the public sector.

An interesting result for the higher involvement of financial institutions in development policy is that the group of respondents from the financial sector unanimously agreed that specialization in individual financial products (for example, the specialization of local enterprise development agencies in microloans below 10 million forints) benefited resource deployment during the 2007-2013 period. In addition, the same group of respondents also reached a consensus (with a high average opinion score of 8.25) that combinations of products could be more successful if they were presented in the context of a policy mix reflecting an integrated development policy view.

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## Appendix

### Appendix 1: Statements on the opinion survey questionnaires sent out in the second step of the research

1. Financial instruments primarily provided assistance to businesses based in Budapest with branch offices in other regions.
2. Financial instruments primarily provided assistance to businesses located in urban areas.
3. During the 2007-2013 period, financial instruments actually led to the development of domestic SMEs (including employment).
4. In practice, financial instruments mainly assisted businesses from a liquidity perspective.
5. In practice, the financial instruments served more as investments for development purposes.
6. The greatest added value of EU financial instruments during the 2007-2013 period was the introduction of venture capital into thinking and business culture.
7. One of the greatest added values of financial instruments was bringing the perspective of place-based thinking into the financial sphere.
8. During the 2007-2013 period, financial instruments primarily resulted in the development of the financial intermediation system, greater diversity of financial intermediaries and financial intermediation opportunities (e.g., venture capital funds, local enterprise development agencies).
9. In the 2007-2013 period, for financial intermediaries deploying EU financial instruments, the reliability of individual intermediaries primarily played the most important role in successful deployment (including attributes such as transparency, fairness and adherence to promises).
10. In the 2007-2013 period, for financial intermediaries deploying EU financial instruments, the market experience of individual financial intermediaries' experts was decisive.
11. In the 2007-2013 period, specialization in individual financial products was advantageous for success. For example, as enterprise development agencies specialized in microloans under 10 million forints.
12. The level of financial awareness among businesses/entrepreneurs is crucial for the success of repayable supports (every applicant is financially aware, but not every financially aware entrepreneur applies for such support).
13. The state is capable of executing successful and profitable venture capital investments.

14. The geographical proximity of intermediary institutions is the most important factor in reaching the target groups specified in the strategic plans for deploying repayable supports.
15. The lessons learned from the 2007-2013 experiences have been well integrated into the 2014-2020 cycle.
16. The types of financial instruments should be tailored to the development level of the regions (for example, venture capital should mainly be directed to more developed regions, while credit products would be more advisable to direct to less developed regions).
17. Development-dependent and region-specific financial products should be designed.
18. To develop development-dependent and region-specific financial instruments, there is a need for more precise identification of regional needs (including businesses in the region, the population and the municipalities involved in the developments).
19. The creation of development-dependent financial products harbours significant growth opportunities for both the financial sector and local businesses.
20. To appropriately deploy financial instruments in line with strategic development goals, a higher level of integration of policymaking is needed between the social and financial sectors and regional development policy.
21. In less developed regions prioritized by support policies, there is a need to deploy combined products.
22. Combined products could be more successful if a policy mix reflecting an integrated development policy were to appear at the level of financial products. For example, if not only types of financial products (loans/ guarantees/venture capital/non-repayable support) could be combined with each other, but also financial products could be supplemented with some other advisory or educational or mentoring support (especially in the fields of management, organizational development, and strategic planning).